

Phillips

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FACSIMILE

Date: 3/6/00 Pages to follow: 2

To: Les Johnson

From: Patricia Phillips

Subject: Ideas for national contracts

L-043
3-6-00

Proposed Approved Manufacturer System

USDA would enter into National contracts with manufactures for reprocessing of USDA donated foods into further processed end products desired by school food services. The national contract would be accompanied by a surety bond to cover the maximum value of donated food on hand at any one time at the processors. End Product Data Schedules would be approved, without limitation on the number of products, at the national level. The California electronic EPDS system should be explored as a means for submittal and approval to help minimize staff implications at the National office.

USDA would notify state agencies by web, e-mail, fax or mail about the manufactures and products that are approved. State agencies, in turn would notify recipient agencies and use their current mechanism to determine volume of donated food to be direct shipped to the various AM. Just as states currently place orders for direct shipment to processors, states would continue to do so while simultaneously notifying the AM. USDA would aggregate the total orders from all states and work with the AM to arrive at a mutually acceptable delivery schedule.

AM would track state allocations based on orders placed with USDA. AM would request shipments to minimize excess storage of donated food and maintain a physical "national inventory" using a first in, first out basis. In the case of non-substitutable donated foods, AM would reduce a state allocation of donated food when product is produced for shipment to that state. AM would report to USDA, production and draw down of the national inventory and report for which state product was produced. At this point AM is responsible for reporting to the state the detailed information about volume shipments to specific RA in their state. AM would report to the State, information currently report to state agencies on monthly performance reports: ie, donated food values per recipient agency. The state would then be in a position to account for the entitlement value for each school districts. If AM currently tracks individual school district commodity entitlement share, this would continue. The AM could be restrict from using more than 80% of a states' entitlement until the AM received 100% of shipments were contracted for by USDA. This would help assure equitable distribution to all states in the even USDA could not purchase all of the intended volume due to market /economic conditions.

The advantage would be, 1 contract, 1 bond and one set of end product data schedules to be approved, streamlined food delivery from USDA, reduction of inventory in storage.

AM would still need rapport with the state agency to order commodity into their plant. Advantage to state agencies – would eliminate the contracting function, but retain entitlement tracking function and communication with state agencies.

Initially the program would begin with full truckloads, but could evolve into partial truckloads.

Currently 43 states administer a total of 845 contracts, many of which are duplicative. The most contracts administered in any one state is 65. USDA could anticipate a maximum of 100 processors, reducing total contract administration by over 80%. Thirty seven states approved a total of 6000 end product data schedules in processing year 1998-1999, an average of 161 EPDS per state. Many of the end product data schedules would be duplicative. The most EPDS reported by any one state is 600. USDA could anticipate 1000 end product data schedules, reducing EPDS administration by 85 percent. USDA could require an aspiring AM to have had contracts in at least 5 states the previous year to prove marketability and to make their efforts worthwhile.

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March 8, 2000

Mr. Les Johnson
Director
Food Distribution Division
Food and Nutrition Service, USDA
3101 Park Center Drive
Alexandria, VA 22302

Dear Les:

Last week we discussed briefly a simple change that FNS could make to greatly facilitate processing without creating much controversy.

Currently FNS requires processors to return the exact meat allocated to a state, to be returned to that state. For example, a truckload shipment of coarse ground beef with a Delivery Order number 206-X-001, is allocated to California and must only be used to produce product for California. It is not only possible, but has been customary for processors to have multiple truckloads of beef in storage for one state, while school districts in another state wait for USDA to purchase "their meat" for shipment into the same processor.

The limited substitution pilot allowed processors to write a plan to legally by-pass that requirement. Under the limited substitution pilot, five out of six processors wrote a plan which simply allowed commodity to be exchanged for commodity. Only one processor has an approved plan to substitute commercial for commodity product. The limited substitution program allows processors to cycle donated meat inventory on a "first in, first out" basis. This prevents meat from aging unnecessarily, provides the best quality product for everyone, and most importantly provides finished product in a more timely manner to the school districts.

Even while this limited substitution pilot has been in place, the state of California continued their policy on linking specific DO to specify school district order, similar to the USDA policy. For example, if the state earmarked a particular DO for a certain Co-op to go to a processor, the processor could not provide finished product to the co-op until that particular DO was received by the processor. Consequently processors were storing excessive quantities of meat – in the millions of pounds -- just for California, yet they were prohibited from serving some California schools for whom they did not have commodities "in hand". This situation was just corrected in December of 1999.

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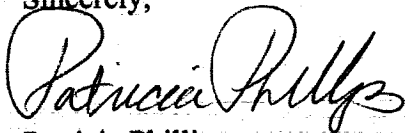
For contrast, it is helpful to understand that most states track raw product at the state level, with direction from the state to the processor on the share that belongs to each school district. In other words – that tracking is done on paper, not in physical inventory. This may shed some light on the frustration of school districts in California with the service level and difficulty of getting processed products.

I encourage the Department to allow processors to use a first in first out inventory system for all donated meat, but take it one step further than the limited substitution pilot. The processor would be responsible for tracking production and distribution of finished product to a state or school district for whom delivery of commodity ingredient is “near certain”, but not necessarily in hand or contracted for. “Near certain” would be defined, such as “80% of orders”. For example, if a state had placed orders with USDA for 10 trucks to a processor, the processor could be near certain that 80% of those truckloads would be purchased by the end of the year. The remaining two truckloads should not be processed until USDA has contracted for their delivery. The processor could process for that state, being near certain that 8 truckloads would be purchased by the end of the school year.

This could be a very positive first step towards facilitating the timely delivery of finished commodities to schools, reduce the volume of donated food in storage and make the entire system much more efficient. This would retain the security of non-substitutability of meat, while eliminating many of the timings, storage and quality issues of which schools have justly complained.

Please consider this an official comment to USDA's proposal as an additional suggestion for how the Department could easily provide dramatic improvements to the program.

Sincerely,

A handwritten signature in cursive script, reading "Patricia Phillips". The signature is written in dark ink and is positioned above the printed name.

Patricia Phillips

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March 24, 2000

Mr. Les Johnson
Director
Food Distribution Division
FNS, USDA
3101 Park Center Drive
Alexandria, VA 22302

RE: USDA Proposal for Change

Dear Les:

I appreciate the opportunity to submit comments in response to USDA's proposal for change. In general the task under taken was enormous and it has been simplified in amazing brevity. I have several comments for your consideration as you make final adjustments to the plan. I hope the Department will consider these, and all comments, not because of the number of similar comments, as there will undoubtedly be many unique comments, but by virtue of the reason and logic expressed in the comments.

Section I: Problems

In reviewing the discussion of problems identified in the commodity program, I noted that some of the problems cited are actually symptoms or effects of other underlying problems. The bunching of commodities is described as resulting from seasonal markets of targeted commodities. But the "bunching" of commodities is also greatly exacerbated by the ordering, purchasing, delivering and communicating each of these three functions. While the proposal addresses reducing paperwork, linking schools directly to the information, and changing certain aspects of purchasing, there is no comprehensive plan to systematically evaluate and redesign the ordering, purchasing, distributing and communicating these three functions to better "even-out" the distribution of donated foods throughout the school year.

"Unpredictable delivery of commodities" is another symptom of poor communications. Deliveries do not need to be predicted, as if it requires a psychic art. The delivery date needs to be determined and communicated. The Department's effort to address unpredictability of deliveries is hindered by the inaccurate definition of the problem. Again, a more comprehensive plan to evaluate and redesign the ordering, purchasing, distributing and communicating those three steps should address both symptoms of bunching and unpredictability of deliveries.

The problem defined as "increasing cost of the final product" can also be explained as the sum of the parts exceeding the total. The reason that USDA's purchase price, shipping cost and distribution cost sometimes exceeds the commercial purchase equivalent will vary by state and commodity. An analysis of such circumstances should be conducted to aid USDA in creating a comprehensive approach to making the food distribution program more efficient while remaining responsive to the need for market support. The discussion of "fewer bids from industry" hints at the fact that consolidation is occurring throughout the food industry, without respect to the commodity program. At the same time there are drawbacks of the food distribution program which are unappealing to commercial interests, including

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bunching and unpredictability of deliveries. That part of the problem cited as "fewer bids from industry" that is related to commodities, is in fact a symptom of the other problems. The larger problem of the consolidation in the industry cannot be "fixed" by the commodity program. Therefore "fewer" bids from industry, is an issue that needs to be considered as USDA works to redesign the ordering, purchasing, distributing and communicating all of the above, but it is not a root problem of the commodity program that USDA can fix.

The discussion of the inadequate communication system identifies only a problem in communicating to schools. As stated above, **many other problems identified are the result of poor communication system or exacerbated by poor communication system**. This is not a personal or personnel issue, but rather a system design issue that needs to be built into redesigning the ordering, purchasing and distributing of donated foods. The final version of the Proposal for Change should expand this discussion to include the long standing lack of communication throughout all levels of the program.

Section II

1 - 3. I agree with and support expanding the use of long-term contracts, testing best-value contracting and updating product specifications.

4. I urge the Department to carefully debate the potential negative effects of commercial product labels. The discussion raises the matter of how schools or commercial warehouses will track commodity inventory when commodities carry a commercial label. The discussion fails to mention the opportunity for fraud and abuse of the donated foods if they carry commercial labels. Will a distributor be able to claim he still has "commodity" in his warehouse, when he has "billed" school districts for the commercial product, with assurances that the next invoice will show commodity? The pilot of commercial product labels in the Commodity Supplemental Food Program has much less opportunity for "commingling" with commercial equivalent and may not be a valid predictor of outcome in the distribution channels for donated foods destined for schools.

A comprehensive evaluation of ordering, purchasing and distributing donated foods could include looking for ways to address some of the benefits of commercial labels.

5. I support the concept of national umbrella contracts with processors. One benefit of national umbrella contracts would be establishing direct communication between USDA and processors. Currently the communication is supposed to flow from USDA to regional offices to states and then to processors – a very cumbersome and inefficient means of communication.

6. I am concerned that the Department is only considering the benefits of expanding substitutability without considering the initial reasons for limiting substitutability. I oppose making meat or poultry completely substitutable¹. Unlike other commodities, the manufacturing and cooking process changes the meat or poultry ingredient so substantially that the lack of grading would create opportunities to use lesser quality ingredients or procedures. Please see the enclosed discussion paper on Seamless Ordering to understand the implied relationship between substitutability and elimination of grading. During the presentation at the ASFSA Legislative Action Conference, it was clearly stated that the Department would not expand substitutability to meat or poultry commodities. The written document is ambiguous on that point. I urge the Department to be more specific in the final document. I further oppose limited pilot projects to test 100% substitutability. Department officials have made public statements that the issue of 100% substitutability for meat or poultry has been the most controversial proposal. Therefore it

¹ See attached ACDA article explaining substitutability

is reasonable for the Department to publicly and openly debate the pros and cons of the proposal before initiating a pilot test on this topic.

7. I am very concerned that the practicality of a seamless program will not succeed in providing the market support function appreciated by the agriculture industry. While the Department might succeed in testing and later implementing a "seamless" program, ultimately, I believe the market support function of the program will suffer, fraud and abuse will increase, and support for the program will erode. Would the seamless program be able to provide targeted market support for specific commodities in time of need, or would the school purchases become so seamless with the commercial market, that the Department's efforts to aid a specific market loss their effectiveness? The attached discussion paper on the seamless concept elaborates on my concerns and explains the interrelationship of many of the proposed changes.

8. I do not object to the Department facilitating processing of limited demand commodities but urge the Department to consider more creative means to support commodities that are less desired by schools. The Department could look outside of the traditional food distribution program to provide market support for commodities with limited demand. Giving the food to limited outlets, even as a bonus, may be similar to posting the most wanted list in the Post Office. It was a very effective a century ago, when the post office was the central meeting place everyone was sure to go, but it is irrelevant today. The Department should consider opportunities completely outside of the food distribution program to schools: for example maybe food stamp recipients could get "bonus" commodities at half price.

9 - 11. The discussion and recommendations to address holds and recalls is somewhat contradictory to the rest of the proposed changes, which focus on substitutability and a seamless program. I support the changes to address concerns for holds and recalls. The Department should also consider the consequences of holds and recalls in a "seamless" or 100% substitutable scenario.

12. The suggestion for improving communications is one-dimensional; it only addresses the school districts need for information and does not acknowledge the long term concerns that USDA needs to better communicate order, purchase and distribution information within the Department and to states and processors.

13. The discussion under the solution titled "provide a single USDA point of contact" identifies the basic need for USDA to provide much needed information about the program in a coordinated and consolidated manner. The effort to streamline communications within the commodity program is the more significant feature than the single point of contact.

14. The Department's consideration of "unsolicited" pilot projects is unusual. I am concerned that the Department is rushing into commitments before the details are known and the consequences are considered.. As reflected in my comments above, I have serious concerns about the long term consequences of some of the proposals to be pilot tested. The approach to reviewing and considering pilot projects proposed from outside entities carries through the patchwork pattern of the Proposal for Change without a comprehensive plan or approach to what might be the Department's priorities for testing changes with the greatest likelihood for success. As so often happens with pilot projects, I am concerned that the Department will be unable to discontinue a pilot project, no matter its faults. I urge the Department to make a coordinated, systematic plan to test different concepts proposed. USDA should work cooperatively with states, distributors and processors to test concepts, but the Department must maintain control. Pilots should have well defined goals and evaluation criteria. If the goals and criteria exist, they have not been well communicated to the public.

15. The recommendation to facilitate use of section 4 and 11 funds to allow states to purchase more commodities is incongruent with the Proposal for Change premise that the food distribution program is

near a cataclysmic demise. If the commodity program is so bad that the drastic changes are needed to save it, why would anyone actually want to use their entitlement dollars to "buy" more commodities? While the department may wish to pursue this goal, it may not belong as part of the Proposal for Change.

The recommendation for the Department to encourage cooperatives is not relevant to the food distribution program. In many instances, the advent of cooperatives focused on commodities has been in response to state systems that have been unable to facilitate a responsive food distribution system. How will the department accomplish the task, and for what purpose? If the commodity program functions as it should, co-ops are not as necessary to service school districts.

I support the effort to relax minimum truckload shipments and view this as one piece of a needed comprehensive re-design of the order, purchase and distribution of donated food.

Summary

I appreciate and respect the great accomplishment in presenting the proposed changes in a clear and concise manner; however, the simplicity fails to explain the necessity for many of the changes to be implemented simultaneously in order for the whole new program to function together. For example, the "seamless" concept is dependent on 100% substitutability for all commodities, which is directly tied to the elimination of grading.

Additionally, the proposal for change appears to be geared toward a "seamless" system to address the problems with the food distribution program. I believe this perspective has limited the Department from considering many other changes which could greatly improve the commodity program, most importantly a comprehensive effort to re-invent the ordering, purchasing and distribution system and the communication system revolving around the program.

In general, the problems defined are predominantly presented from the school district perspective lacking the depth of understanding of underlying problems which cause or contribute to the problems experienced by school. The focus of proposed solutions is on the positive effects of change on schools districts. I am concerned that in the Department's enthusiasm to implement change, there is a lack of debate and discussion of possible negative effects of some changes on the program, as well as the creation of opportunity for fraud. The lack of input from the agricultural and distribution perspectives in the development process may have contributed to the one dimensional approach to addressing problems with the food distribution program.

The need for defined accountability at all levels of the food distribution system is not clearly addressed in the proposal for change. Clear standards will help all parties know what is expected of them and provide a measuring stick for holding offices accountable for a defined level of service.

Thank you again for the opportunity to express my ideas for how the proposal for change could be even better.

Sincerely,



Patricia Phillips